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October 18, 2005

Mary L. Cottrell, Secretary
Department of Telecommunications & Energy
One South Station, 2nd Floor
Boston, MA 02110

RE: D.T.E. 01-106-C, Investigation by the Department of Telecommunications and Energy on its own Motion to Increase the Participation Rate for Discounted Electric, Gas and Telephone Service Pursuant to G.L. c. 159, § 105, and G.L. c. 76

Dear Secretary Cottrell:

Enclosed for the Department of Telecommunications and Energy's ("Department") approval, please find the New England Gas Company's ("NEGC" or "Company") Residential Assistance Adjustment Clause ("RAAC"), Tariff Number 103, proposed to be effective November 1, 2005. Additionally, the Company has provided updated Local Distribution Adjustment Clause ("LDAC") tariffs for both its Fall River and North Attleboro service areas. These tariffs are numbered M.D.T.E. No. 201A and M.D.T.E. No. 301A respectively.

Pursuant to the Department's October 14, 2005 Order in D.T.E. 01-106-C, this proposed tariff provision will be supplemented by the relevant schedules to provide the basis for the Company's calculations. Should you have any questions regarding these filings, please contact me or Kevin Penders directly at (401) 574-2212.

Sincerely,


John K. Habib

cc: Andrew Kaplan, General Counsel
Jeanne Voveris, Senior Counsel
Elizabeth Cellucci, Hearing Officer
George Yiankos, Director, Gas Division
Kevin Brannelly, Director, Rates Division
Jeff Hall, Rates Analyst
Joseph Rogers, Office of the Attorney General
Service List, D.T.E. 01-106

Enclosures

NEW ENGLAND GAS COMPANY

M.D.T.E. No. 103
Cancels M.D.T.E. NA

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RESIDENTIAL ASSISTANCE ADJUSTMENT CLAUSE

Purpose

The purpose of the Residential Assistance Adjustment Clause ("RAAC") is to provide New England Gas Company ("NEGC" or the "Company") a mechanism for the recovery of lost revenue, on an annual basis and subject to the jurisdiction of the Department of Telecommunications and Energy (the "Department"), based on the incremental increase of Residential Assistance customers enrolled in the Company's discounted rates (Rate R-2 and Rate R-4) as a result of a computer data matching program with the Massachusetts Executive Office of Health and Human Services ("EOHHS"), as described in the Department's D.T.E. 01-106 order, as well as through traditional outreach programs. The RAAC shall be subject to annual reconciliation/true-up based on actual sales and revenue.

Applicability

The RAAC shall be applicable to all Firm Customers. For billing purposes, the RAAC shall be included in the Local Distribution Adjustment Clause.

Effective Date of Annual Adjustment Factor

The Residential Assistance Adjustment Factor ("RAAF") shall be effective on November 1, 2005, and then on November 1st of each succeeding calendar year, unless otherwise ordered by the Department.

Definitions

The following terms shall be used in this tariff as defined in this section, unless the context requires otherwise.

- (1) "Distribution Company" or "Company" is New England Gas Company.
- (2) "Baseline Period" is the twelve-month period ended June 30, 2005.
- (3) "Baseline Revenue" is the amount of low-income discount revenue in the Baseline Period. The Baseline Revenue shall be computed on a weather-normalized basis as the difference between the delivery rate revenue that would have been collected from customers had no low-income discount existed and the actual delivery rate revenue collected from customers on low-income tariffs during the Baseline Period.
- (4) "Recoverable Revenue" is the amount of base rate discount revenue in an annual period subsequent to the Baseline Period in excess of the Baseline Revenue. The base rate discount revenue shall be calculated as the difference between the base rate revenue that would have been collected had no low-income discount existed and actual base rate revenue from the low income discount. The Recoverable Revenue shall not be less than zero.

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RESIDENTIAL ASSISTANCE ADJUSTMENT CLAUSE

Residential Assistance Adjustment Factor Formula

$$RAAF_x = [(RA_{x-1}) + BR - \{Cust_x(DCust\$) + Cust_x(AvgUse)(DUse\$)\}] / FUse_x$$

RAAF = The annual Residential Assistance Adjustment Factor.

RA_{x-1} = The Reconciliation Adjustment for Year_{x-1} shall be the difference between the actual amount of revenue recovered in Year_{x-1} and the Recoverable Revenue for Year_{x-1}. Reconciliations shall be performed annually and interest shall be calculated on the average monthly reconciling balance using the prime rate computed in accordance with 220 C.M.R. § 6.08(2) and added to the reconciling balance.

BR = Baseline Revenue

$Cust_x$ = The estimated number of customers enrolled on the Company's Residential Assistance Rates for Year_x.

$DCust\$$ = The difference between the non-discounted and discounted customer charge for the applicable rates.

$AvgUse$ = The estimated average weather-normalized therm or ccf usage per customer for the forecast period determined from the historical therm or ccf usage under the Company's Residential Assistance Rates.

$DUse\$$ = The difference between the non-discounted and discounted Therm or Ccf delivery charges for the applicable rates.

$FUse_x$ = The estimated total weather-normalized Therm or Ccf sales in the forecast period.

Information Required to be Filed with the Department

Information pertaining to the RAAC shall be filed with the Department at least forty-five (45) days before the date on which a new RAAF is to be effective. This information shall be submitted with each annual RAAF filing, along with complete documentation of the reconciliation-adjustment calculations.

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LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

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1.01: Purpose

The Local Distribution Adjustment Clause ("LDAC") establishes the procedures that allow the Fall River Service Area of the New England Gas Company (the "Company"), which is subject to the jurisdiction of the Department of Telecommunications and Energy (the "Department"), to adjust on an annual basis, its rates to recover Demand Side Management ("DSM") costs, environmental response costs, FERC Order 636 transition costs, Residential Assistance Adjustment Factor ("RAAF") costs, and certain costs incurred by the Company as a result of its participation in the Massachusetts Gas Unbundling Collaborative, as well as to return to firm ratepayers balancing penalties and a portion of non-core distribution margins allocated to firm distribution services. Any costs recovered through the application of this LDAC shall be identified and explained in the Company's annual filing as outlined in Section 1.13.

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1.02: Applicability

This LDAC shall be applicable to all of the Company's firm Customers. As stated in Section 1.14, the application of the clause may, for good cause shown, be modified by the Department.

1.03: Definitions

The following terms shall be as defined in this section, unless the context requires otherwise:

- (1) Peak Season is the winter heating season as designated by the company and approved by the Department.
- (2) Off-Peak Season is the complementary summer season as designated by the company.
- (3) Rate Category is the rate schedule pursuant to which the Company offers service to a unique group of Customers, or a group of two or more rate schedules pursuant to which the Company offers services to similarly situated groups of Customers, as follows:

Residential:

Rates R-1, R-2, R-3, R-4, T-1, T-2, T-3, T-4

Commercial/Industrial:

Rates G-41, G-42, G-43, G-51, G-52, G-53, T-41, T-42, T-43, T-51, T-52, T-53

- (4) Total Throughput (T:Thru) is the forecasted firm throughput volumes in Ccf's for twelve consecutive months November to October, inclusive.
- (5) Number of Days Lag (DL) is the number of days lag to calculate the working capital requirement as approved by the Department.

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- (6) Tax Rate (TR) is the combined state and federal income tax rate.
- (7) Weighted Cost of Capital is the weighted cost of capital as set in the Company's most recent rate case.
- (8) Cost of Debt (CD) is the weighted cost of debt as set in the Company's most recent rate case.
- (9) Cost of Equity (CE) is the weighted cost of equity as set in the Company's most recent rate case.
- (10) DSM Program Costs (DSM) are Demand Side Management program costs as approved by the Department.
- (11) DSM Lost Margins (LM) are margins lost as a result of the implementation of DSM measures, calculated by identifying total volumes of gas saved as a result of DSM measures, times the margin that would have been earned on these volumes.
- (12) Conservation Charge (CC) is the allowable per-unit collection rate derived from the DSM Program costs.
- (13) DSM Residential Reconciliation (DSMr) is the balance in [account 175.40] and DSM C & I Reconciliation (DSMci) is the balance in [account 175.50] as outlined in Section 1.10.
- (14) Environmental Response Costs (ERC) shall include all costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.

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- (15) Unamortized Environmental Response Costs (UERC) are the portion of the environmental response costs approved for recovery but not yet included in any LDAC recovery calculation.
- (16) Deferred Tax Benefit (DTB) shall be the unamortized portion of actual environmental response costs multiplied by the effective statutory federal and state income tax rate and by the Company's tax adjusted cost of capital as approved in its last rate proceeding.
- (17) Expenses (E) and Recoveries (R) associated with insurance and third-party claims shall include fifty percent of the expenses incurred and fifty percent of any net recoveries or other benefits received by the company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers through the LDAC will be net of any insurance or third party expenses not collected from ratepayers.
- (18) Remediation Adjustment Clause Reconciliation Adjustment (Rrac) is the balance in account 175.30 as outlined in Section 1.10.
- (19) Residential Assistance Adjustment Factor (RAAF) is the mechanism to recover lost revenue based on the incremental increase of residential assistance to customers enrolled in the Company's discounted rates as outlined in Section 1.08.
- (20) Transition Costs (TC) are costs incurred by pipelines as a result of the restructuring of their operations and services in compliance with FERC Order 636 as defined by FERC including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs.
- (21) Transition Costs Reconciliation Adjustment (TCR) is the balance in Account 175.80 as outlined in Section 1.10.
- (22) Transition Cost Working Capital Requirement (TCWCreq) is the allowable working capital derived from FERC Order 636 Transition Costs.

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- (23) Transition Cost Working Capital Allowance (TCWC) is the allowable working capital cost per-unit collection rate derived from the Transition Cost Working Capital Requirement.
- (24) Transition Cost Working Capital Reconciliation Adjustment (TCWCR) is the balance in account 175.90 as outlined in Section 1.10.
- (25) Unbundling Costs (UC) are all costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses as approved by the Department.
- (26) Unbundling Cost Reconciliation Adjustment (UCR) is the balance in [account 175.91] as outlined in Section 1.10.
- (27) Unbundling Cost Working Capital Requirement (UCWreq) is the allowable working capital derived from the Unbundling Cost.
- (28) Unbundling Cost Working Capital (UCWC) is the allowable working capital cost per-unit collection rate.
- (29) Unbundling Cost Working Capital Reconciliation Adjustment (UCWCR) is the balance in Account 176.90 as outlined in Section 1.10.
- (30) Balancing Penalties (BP) are the penalty revenues collected by the Company in accordance with its Terms and Conditions.
- (31) Economic Benefit is the difference between the revenue and the marginal cost determined to provide non-core distribution service.
- (32) Threshold Level is a level based on a historical twelve-month period ending April 30 of each year.

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- (33) Non-Core Distribution Margin (NCM) is the economic benefit derived from the provision of non-core distribution services. If the total credit exceeds the Threshold Level, then only seventy-five (75) percent of the credit earned in excess of the Threshold Level will be credited as established in Interruptible Transportation, D.P.U. 93-141-A.
- (34) Non-Core Distribution Reconciliation (NCMR) is the balance in Account 175.42 as outlined in Section 1.10.

1.04 DSM Costs Allowable for LDAC

(A) Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Conservation Charge to recover from firm ratepayers DSM Program Costs and associated expenditures.

(B) Applicability

The Conservation Charge shall be applied to firm throughput of the Company, subject to the jurisdiction of the Department, as determined in accordance with the provisions of this rate schedule.

Conservation Charge shall be determined annually by the Company separately for each Rate Category subject to review and approval by the Department. The Conservation Charge shall be incorporated within the calculation of the LDAF for each Rate Category as set forth in Section 1.09.

(C) Calculation of Conservation Charges

The Company will determine the amount of Conservation Expenditures for each Rate Category subject to this rate schedule to be collected over the twelve-month period commencing November 1st of each year. The total of

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such Conservation Expenditures plus any prior period Reconciling Adjustment plus Lost Margins plus Incentives shall be divided by each rate categories firm throughput as forecast by the Company for the same annual period. The resulting Conservation Charge shall be incorporated within the calculation of the LDAF's applied to firm Customers during each such twelve-month period commencing with the Peak Season.

1.05: Environmental Response Costs Allowable for LDAC

All environmental response costs associated with manufactured gas plants, adjusted for deferred tax benefits, and one half of the expenses incurred by the Company in pursuing insurance and third party claims, less one half of any recoveries received by the Company as a result of such claims. Any insurance or third party recoveries to be passed back to ratepayers through the clause will be net of any insurance or third party expenses not collected from ratepayers.

The total annual charge to the Company's ratepayers for Environmental Response Costs during any Remediation Cost Recovery Year shall not exceed five (5) percent of the Company's total revenues from firm gas sales during the preceding calendar year. If this limitation results in the Company recovering less than the amount that would otherwise be recovered in a particular Remediation Cost Recovery Year, then beginning with the date upon which the annual charge would have been effective, carrying costs shall accrue to the Company upon the unrecovered portion of the Remediation costs that otherwise would have been allowable. Carrying costs shall accrue though the Remediation Cost Recovery Year in which such amount, together with any accumulated carrying costs, is actually recovered by the Company from its ratepayers and shall accrue at the pre-tax weighted cost of capital rate as defined in Section 1.03.

1.06: FERC Order 636 Transition Costs Allowable for LDAC

All costs as defined and approved by the FERC, other than those transition costs pertaining to Account No. 191, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs, may be included in the LDAC.

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1.07: Unbundling Costs Allowable for LDAC

All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, customer education/advertising, and facilities expenses, may be included in the LDAC as approved by the Department.

1.08: Residential Assistance Adjustments Allowable for LDAC

All costs associated with the Company's mechanism for the recovery of lost revenue based on the incremental increase of Residential Assistance customers enrolled in the Company's discounted rates (Rate R-2 and R-4) as a result of a computer data matching program with the Massachusetts' Executive Office of Health and Human Services, as described in the Department's D.T.E. 01-106-A, D.T.E. 01-106-B, and D.T.E. 01-106-C orders, as well as through traditional outreach programs, may be included in the LDAC as approved by the Department.

1.09: Formulas

(A) Local Distribution Adjustment Factor ("LDAF")

The annual LDAF per Ccf shall comprise a Rate Category specific Conservation Charge ("CC"), the Remediation Adjustment Factor ("RAF"), the Residential Assistance Adjustment Factor ("RAAF"), the Transition Cost Factor ("TCF"), the Unbundling Charge Factor ("UCF"), the Balancing Penalty Credit Factor ("BPCF"), and the Annual Non-Core Distribution Credit Factor ("NCCF"), calculated according to the following formula:

$$\text{LDAF} = \text{CC} + \text{RAF} + \text{RAAF} + \text{TCF} + \text{UCF} - \text{BPCF} - \text{NCCF}$$

(B) Conservation Charge Factor

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The DSM Factor for residential heating customers (R-3, R-4) (DSMr) shall be calculated at the beginning of each Season according to the following formula:

$$\text{DSMr} = \frac{\text{PCr} + \text{LMr} + \text{Rr}}{\text{R:Vol}}$$

where:

PCr: DSM program costs for residential customers.

LMr: DSM lost margins from residential customers as defined in Section 1.04.

Rr: DSM residential reconciliation adjustment - Account 175.40 balance, inclusive of the associated Account 175.40 interest, as outlined in Section 1.04.

R:Vol: Forecasted residential annual throughput volumes to which the DSMr applies.

The DSM Factor for commercial and industrial customers (G-41, T-41, G-42, T-42, G-51, G-52) (DSMci) shall be calculated at the beginning of each season according to the following formula:

$$\text{DSMci} = \frac{\text{PCci} + \text{LMci} + \text{Rci}}{\text{CI: Vol}}$$

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Where:

- PCci: DSM program costs for commercial and industrial customers.
- LMci: DSM lost margins from commercial and industrial customers as defined in Section 1.04.
- Rci: DSM C&I reconciliation adjustment - Account 175.50 balance, inclusive of the associated Account 175.50 interest, as outlined in Section 1.04.
- CI:Vol: Forecasted C&I annual throughput volumes to which DSMci applies.

(C) Remediation Adjustment Factor

The RAF consists of one-seventh of the actual Environmental Response Costs incurred by the company in any calendar year for each year until fully amortized, less a deferred tax benefit, plus one-half of insurance and third-party expenses for the calendar year, less one-half of the insurance and third-party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment. This amount is then divided by the Company's forecast of total firm throughput volumes for the upcoming year.

The Deferred Tax Benefit is calculated by applying the Effective Tax Rate to the Company's Unamortized Environmental Response Costs to arrive at the deferred tax. The deferred tax is then multiplied by the Tax Adjusted Cost of Capital to arrive at the Deferred Tax Benefit.

The RAF shall be calculated according to the following formula:

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$$\text{RAF} = \frac{\text{Sum (ERC / 7) - DTB} + ((\text{IE} - \text{IR}) * 0.5) + \text{Rrac}}{\text{T:Thru}}$$

where:

$$\text{DTB} = \text{UERC} * \text{TR} * (\text{CD} + (\text{CE} / (1 - \text{TR})))$$

(D) Residential Assistance Adjustment Factor

See M.D.T.E. No. 103.

(E) Transition Cost Factor

Pursuant to D.P.U. 89-161, The TCF shall be calculated according to the following formula:

$$\text{TCF} = \frac{\text{TC} + \text{TCR}}{\text{T:Thru}} + \text{TCWC}$$

where:

$$\text{TCWC} = \frac{\text{TCWCreq} * (\text{CD} + (\text{CE} / (1 - \text{TR}))) + \text{TCWCR}}{\text{T:Thru}}$$

$$\text{TCWCreq} = \text{TC} * (\text{DL} / 365)$$

(F) Unbundling Charge Factor

The UCF shall be calculated according to the following formula:

$$\text{UC} + \text{UCR}$$

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$$UCF = \frac{\text{-----}}{T:Thru} + UCWC$$

where:

$$UCWC = \frac{UCWC_{req} * (CD + (CE/(1-TR)))) + UCWCR}{T:Thru}$$

$$UCWC_{req} = UC * (DL/365)$$

(G) Balancing Penalty Credit Factor

The BPCF shall be calculated according to the following formula:

$$BPCF = \frac{BP}{T:Thru}$$

(H) Annual Non-Core Distribution Credit Factor

The NCCF shall be calculated according to the following formula:

$$NCCF = \frac{NCM}{T:Thru} + NCMR$$

1.10: Reconciliation Adjustments

(A) DSM

[Account 175.40] shall contain the accumulated difference between DSMr revenues toward DSMr costs as calculated by multiplying the DSMr times monthly residential volumes and DSM costs allowable per formula.

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[Account 175.50] shall contain the accumulated difference between DSMci revenues toward DSMci costs as calculated by multiplying the DSMci times monthly commercial and industrial volumes and DSM costs allowable per formula. Interest shall be calculated on the average monthly balance of the DSM accounts using The Bank of America prime lending rate, then added to each end-of-month balance. The residential DSM reconciliation adjustment shall be taken as the [Account 175.40] balance as of a reconciliation date as designated by the Company. The commercial and industrial DSM reconciliation adjustment shall be taken as the [Account 175.50] balance as of a reconciliation date as designated by the Company.

(B) Environmental Response Cost

Account 175.30 shall contain the accumulated difference between the revenues toward Environmental Response Costs as calculated by multiplying the RAF times monthly firm throughput volumes and environmental response costs allowable per formula. A RAF Reconciliation Adjustment shall be taken as the Account 175.30 balance as of a reconciliation date designated by the Company.

(C) Transition Costs

Account 175.80 shall contain the accumulated difference between the revenues toward transition costs as calculated by multiplying the transition cost factor times monthly firm throughput volumes and transition costs allowed. The Transition Cost Reconciliation Adjustment shall be taken as the Account 175.80 balance as of a reconciliation date designated by the Company.

(D) Unbundling Costs

Account 175.91 shall contain the accumulated difference between the Unbundling costs allowable per the UCF formula and the revenue toward Unbundling Costs as calculated by multiplying the UCF times firm

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throughput volumes. The UCF Reconciliation Adjustment shall be taken as the Account 175.91 balance as of a reconciliation date designated by the Company.

(E) Non-FirmCore Distribution Margins

Account 175.42 shall contain the accumulated difference between the credits toward Non-Core Distribution Margins as calculated by multiplying the NCCF times firm throughput volumes and the Non-Core Distribution Margins allowable per the NCCF formula. The NCCF Reconciliation Adjustment shall be taken as the Account 175.42 balance as of a reconciliation date designated by the Company.

(F) Working Capital Costs - Transition Costs

[Account 175.90] shall contain the accumulated difference between the Transition Cost Working Capital Allowance and the Revenue toward the Transition Cost Working Capital Allowance. The Transition Cost Working Reconciliation Adjustment shall be taken as the [Account 175.90] balance as of a reconciliation date as designated by the Company.

1.11 Effective Date of Local Distribution Adjustment Factor

The date on which the annual Local Distribution Adjustment Factors ("LDAF") become effective will be November 1st of each year.

1.12 Application of LDAF to Bills

The LDAF will be applied to the monthly firm throughput volumes for each Customer in a Rate Category. The annual LDAF for each Rate Category shall be calculated to the nearest-hundredth of a cent per Ccf.

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1.13 Information to be Filed with the Department

Information pertaining to the LDAF shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a report which shall be submitted to the Department at least 45 days before the date on which the new LDAF is to be effective, and an annual RAC filing which shall be submitted at least 90 days before the date on which the new LDAF is to be effective.

The annual RAC filing will include copies of all bills relating to any environmental response costs and expenses related to insurance and third-party recoveries incurred in the preceding calendar year. The annual RAC reconciliation shall be submitted with each Off-Peak Season LDAF filing along with documentation of the RAC reconciliation adjustment calculations.

Additionally, the Company shall file with the Department a complete list by (sub)account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with the Peak Season LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

1.14 Other Rules

The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the Department may require the Company to file, or the Company may file with the Department, an amended LDAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended LDAF.

The operation of this rate schedule is subject to all powers of suspension and investigation vested in the Department by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

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LOCAL DISTRIBUTION ADJUSTMENT CLAUSE

1.15 Customer Notification

The Company will design a notice which explains in simple terms to customers the LDAF, the nature of any change in the LDAF, and the manner in which the LDAF is applied to the bill. The Company will submit this notice for approval at the time of each LDAF filing. Upon approval by the Department, the Company shall immediately distribute these notices to all of its customers either through direct mail or with its bills.

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Issued By:
Sharon Partridge
Vice President , Finance

NEW ENGLAND GAS COMPANY
NORTH ATTLEBORO SERVICE AREA

M.D.T.E. No. 301A
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LOCAL DISTRIBUTION ADJUSTMENT COST CLAUSE

1.0 PURPOSE

The Local Distribution Adjustment Clause ("LDAC") establishes the procedures that allow the North Attleboro Service Area of New England Gas Company ("Company"), subject to the jurisdiction of the Department of Telecommunications and Energy ("Department"), to adjust on an annual basis, its rates to recover Demand Side Management ("DSM") costs, environmental response costs, FERC Order 636 transition costs, Residential Assistance Adjustment Factor ("RAAF") costs, and certain costs incurred by the Company as a result of its participation in the Massachusetts Gas Unbundling Collaborative, and to return to firm ratepayers Balancing Penalties and a portion of non-core distribution margins allocated to firm distribution services. Any costs recovered through the application of this LDAC shall be identified and explained in the Company's annual filing as outlined in Section 13.0.

2.0 APPLICABILITY

This LDAC shall be applicable to all of the Company's firm Customers. As stated in Section 14.0, the application of the clause may, for good cause shown, be modified by the Department.

3.0 DEFINITIONS

The following terms shall be as defined in this paragraph, unless the context requires otherwise:

Rate Category	A rate schedule pursuant to which the Company offers service to a unique group of Customers, or a group of two or more rate schedules pursuant to which the Company offers services to similarly situated groups of Customers, as follows:
	Residential (Rates R-1, R-2, R-3, R-4, T-1, T-2, T-3, T-4)
	Commercial/ Industrial (Rates G-0, G-1, G-2, G-3, T-0, T-1, T-2, T-3)
Therm	An amount of gas having a thermal content of 100,000 Btus
Total Throughput (T:Thru)	Forecasted firm throughput volumes in Therms for twelve consecutive months November to October, inclusive.
DSM Program Costs	Demand Side Management costs as approved by the Department.

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Conservation Charge ("CC")	The allowable per-unit collection rate derived from the DSM Program Costs.
Environmental Response Costs ("ERC")	All costs of investigation, testing, remediation, litigation expenses, and other liabilities relating to manufactured gas plant sites, disposal sites, or other sites onto which material may have migrated, as a result of the operating or decommissioning of Massachusetts gas manufacturing facilities.
Unamortized Environmental Response Costs ("UERC")	The portion of the Environmental Response Costs approved for recovery but not yet included in any LDAC recovery calculation.
Residential Assistance Adjustment Factor discounted ("RAAF")	The mechanism to recover lost revenue based on the incremental increase of residential assistance to customers enrolled in the Company's rates pursuant to D.T.E. 01-106-C.
Number of Days Lag ("DL")	The number of days lag to calculate the purchased gas working capital requirement as defined in the Company's most recent rate case.
Effective Tax Rate ("TR")	The combined effective state and federal income tax rate.
Cost of Equity ("CE")	The equity component of the rate of return as approved by the Department in the Company's most recent base rate case.
Cost of Debt ("CD")	The debt component of the rate of return as approved by the Department in the Company's most recent base rate case.
Tax Adjusted Cost of Capital	The sum of (1) the Cost of Debt and (2) the Cost of Equity divided by one minus the Effective Tax Rate.
Deferred Tax Benefit ("DTB")	The Unamortized Environmental Response Costs multiplied by the Effective Tax Rate and by the Tax Adjusted Cost of Capital.
Insurance/Third-Party Expense	Any expense incurred by the Company in pursuing insurance and third-party MGP claims.

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("IE")	
Insurance/Third-Party Recovery ("IR")	Any recovery received by the Company as a result of insurance and third-party MGP claims net of any Insurance/Third-Party Expenses not collected from ratepayers.
Remediation Adjustment Clause Reconciliation Adjustment ("Rrac")	The balance in Account 176.3 as outlined in Section 10.0.
Transition Costs ("TC")	Costs associated with the implementation of FERC Order 636 including (1) gas supply realignment or GSR costs, (2) stranded costs and (3) new facilities costs.
Transition Costs Reconciliation Adjustment ("TCR")	The balance in Account 176.60 as outlined in Section 10.0.
Transition Cost Working Capital Requirement ("TCWCreq")	The allowable working capital derived from FERC Order 636 Transition Costs.
Transition Cost Working Capital Allowance ("TCWC")	The allowable working capital cost per-unit collection rate derived from the Transition Cost Working Capital Requirement.
Transition Cost Working Capital Reconciliation Adjustment ("TCWCR")	The balance in Account 176.70 as outlined in Section 10.0.
Unbundling Cost ("UC")	All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, and facilities expenses as approved by the Department.
Unbundling Cost	The balance in Account 176.80 as outlined in Section 10.0.

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Reconciliation
Adjustment ("UCR")

Unbundling Cost
Working Capital
Requirement
("UCWCreq")

The allowable working capital derived from Unbundling Cost.

Unbundling Cost
Working Capital
Allowance
("UCWC")

The allowable working capital cost per-unit collection rate derived from the Unbundling Cost Working Capital Requirement.

Unbundling Cost
Working Capital
Reconciliation
Adjustment
("UCWCR")

The balance in Account 176.90 as outlined in Section 10.0.

Balancing Penalties
("BP")

Penalty revenues collected by the Company in accordance with its Terms and Conditions.

Economic Benefit

The difference between the revenue and the marginal cost determined to provide non-core distribution service.

Threshold Level

A level based on a historical twelve-month period ending April 30 of each year.

Non-Core
Distribution Margin
("NCM")

The Economic Benefit derived from the provision of non-core distribution services. If the total credit exceeds the Threshold Level, then only seventy-five (75) percent of the credit earned in excess of the Threshold Level will be credited as established in DPU 93-141-A. Credits from Non-Core Distribution Margins shall be adjusted to reflect additions or losses from Customers who switch from firm distribution to non-core distribution, and conversely, from non-core distribution to firm distribution.

4.0 **DEMAND SIDE MANAGEMENT COSTS ALLOWABLE FOR LDAC**

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LOCAL DISTRIBUTION ADJUSTMENT COST CLAUSE

4.1 Purpose

This provision establishes the procedures that allow the Company, subject to the jurisdiction of the Department, to adjust on an annual basis, the Conservation Charge to recover from firm ratepayers DSM Program Costs and associated expenditures.

4.2 Applicability

The Conservation Charge shall be applied to therm sales of the Company, subject to the jurisdiction of the Department, as determined in accordance with the provisions of this rate schedule. Such Conservation Charge shall be determined annually by the Company separately for each Rate Category subject to review and approval by the Department. The Conservation Charge shall be incorporated within the calculation of the LDAF for each Rate Category as set forth in Section 9.0.

4.3 Definitions

Unless otherwise noted, these definitions shall apply only to the recovery of DSM costs:

Category Conservation Expenditures	Those expenses properly assignable or allocable to a Rate Category and incurred by the Company in furtherance of DSM programs that have been pre-approved by the Department pursuant to such orders as it may issue and its regulations as in effect from time to time.
Lost Margins	Lost Margins shall be determined by multiplying Rate Category therm savings by the respective Rate Category recovery rate, both as approved by the Department from time to time. Lost Margins shall be recalculated in the Initial Lost Margins Reconciliation and the Final Lost Margins Reconciliation as described below. Whenever a general base rate proceeding is adjudicated by the Department, the Company will cease to recover, commencing with the effective date of the new base rate schedules, the Lost Margins associated with DSM measures installed prior to the test year used in said base rate proceeding.
Category Therm Sales	The respective therm sales applicable to each Rate Category.
Category Reconciling	The dollar amount, whether positive or negative, required to reconcile any difference between revenue collected from Customers pursuant to this rate

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Adjustment schedule with respect to a given Rate Category during a given period of time, and the Category Conservation Expenditures incurred by the Company relative to such Rate Category during such period of time.

4.4 Lost Margin Recovery

The recovery of Lost Margins will be subject to an "Initial Lost Margins Reconciliation" and a "Final Lost Margins Reconciliation" each to be determined, using the most recent program savings measurements, and submitted to the Department concurrently with one of the Company's annual Conservation Charge decimal filings, or at the time of an interim change in the Company's Conservation Charge decimals. The difference between the Lost Margins as preliminarily approved by the Department from time to time based upon engineering estimates of savings and as calculated using the measured savings resulting from the Gas Evaluation and Monitoring Study ("GEMS") and approved by the Department will be the Initial Lost Margins Reconciliation. This Initial Lost Margins Reconciliation will be submitted with the Company's first Conservation Charge decimal filing after such approved GEMS savings figures are available. The difference between the Lost Margins as calculated using the initial GEMS measured savings and the Lost Margins as calculated using final GEMS measured savings (if any) will be the Final Lost Margins Reconciliation and will be submitted the following year. The Initial Lost Margins Reconciliation and the Final Lost Margins Reconciliation, whether positive or negative, will be incorporated into the calculation of the Conservation Charge decimals being submitted for the Department's approval with the Company's respective Conservation Charge decimal filing. The Conservation Charge shall be filed as part of the Company's overall LDAF filing pursuant to Section 13.0.

4.5 Calculation of Conservation Charges

The Company will forecast Category Conservation Expenditures for each Rate Category subject to this rate schedule for a future twelve-month period commencing November 1st of each year. The total of such Category Conservation Expenditures plus any prior period Category Reconciling Adjustment plus an allocated share of the Lost Margins shall be divided by Category Therm Sales as forecast by the Company for the same annual period. The resulting Conservation Charge shall be incorporated within the calculation of the LDAFs applied to firm Customers during each such twelve-month period commencing with the Peak Season.

4.6 Information to be Filed With the Department

As part of the Company's annual LDAF filing, the Company will submit to the Department for its consideration and approval, the Company's request for a change in the Conservation Charge

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applicable to the LDAFs for each Rate Category during the next subsequent twelve-month period commencing with the billing month of November.

The Company shall submit semi-annual reports to the Department setting forth Category Conservation Expenditures, Category Therm Sales and Conservation Charge revenue under this rate schedule, both as actually experienced and as estimated for the remaining forecast period. Such reports shall be filed with the Department on or before the last day of the first month after the close of each Peak Season and Off-Peak Season as designated by the Company.

4.7 Other Rules

Whenever the Company determines that, under one or more of the Conservation Charges then in effect, the sum of actual plus revised projected Category Conservation Expenditures exceeds the approved annual estimate by an aggregate amount of more than ten percent, the Company may apply to the Department for approval and authorization of an appropriate adjustment in such Conservation Charges. Whenever the Company determines that collections from any one or more of the approved Conservation Charges will exceed the sum of actual plus revised projected Category Conservation Expenditures by an aggregate amount of more than ten (10) percent, the Company will forthwith notify the Department. The Department thereupon may approve an adjustment in any one or more of the Conservation Charges then in effect.

The operation of this rate schedule shall be modified as may be necessary to include in the charges hereunder the dollar amount required to reconcile any difference between amounts actually collected and costs experienced by the Company pursuant to the Company's superseded Conservation Charge (M.D.P.U. No. 233).

5.0 ENVIRONMENTAL RESPONSE COSTS ALLOWABLE FOR LDAC

All costs and other liabilities, adjusted for deferred tax benefits, associated with the investigation, testing, remediation and litigation relating to manufactured gas plant sites, disposal sites or other sites onto which material may have migrated as a result of the Manufactured Gas Process ("MGP"), as fully defined in the Department's Order in DPU 89-161, may be included in the LDAC. In addition, one-half of the Insurance/Third-Party Expense less one-half of the Insurance/Third-Party Recovery, both as defined in Section 3.0, may be included.

6.0 FERC ORDER 636 TRANSITION COSTS ALLOWABLE FOR LDAC

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All costs as defined and approved by the FERC, Other than those Transition Costs pertaining to FERC Account NO. 191, including: (1) gas supply realignment or GSR costs; (2) stranded costs; and (3) new facilities costs, may be included in the LDAC.

7.0 UNBUNDLING COSTS ALLOWABLE FOR LDAC

All costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative, including but not limited to any legal, consulting, materials, and facilities expenses, may be included in the LDAC as approved by the Department.

8.0 RESIDENTIAL ASSISTANCE ADJUSTMENTS ALLOWABLE FOR LDAC

All costs associated with the Company's mechanism for the recovery of lost revenue based on the incremental increase of Residential Assistance customers enrolled in the Company's discounted rates (Rate R-2 and R-4) as a result of a computer data matching program with the Massachusetts' Executive Office for Health and Human Services, as described in the Department's D.T.E. 01-106-A, D.T.E. 01-106-B, and D.T.E. 01-106-C orders, as well as through traditional outreach programs, may be included in the LDAC as approved by the Department

9.0 FORMULAS

9.1 Local Distribution Adjustment Factor ("LDAF")

The annual LDAF shall comprise an annual Rate Category specific Conservation Charge, the Remediation Adjustment Factor ("RAF"), the Transition Cost Factor ("TCF"), the Unbundling Charge Factor ("UCF"), the Residential Assistance Adjustment Factor ("RAAF"), the Balancing Penalty Credit Factor ("BPC"), and the Annual Non-Core Distribution Credit Factor ("NCC"), calculated prior to November 1st of each year according to the following formula:

$$\text{LDAF} = \text{CC} + \text{RAF} + \text{TCF} + \text{UCF} + \text{RAAF} - \text{BPC} - \text{NCC}$$

9.2 Remediation Adjustment Factor

The RAF consists of one-seventh of the actual Environmental Response Costs incurred by the Company in any calendar year for each year until fully amortized, less a deferred tax benefit, plus

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one-half of insurance and third-party expenses for the calendar year, less one-half of the insurance and third-party recoveries for the calendar year, plus the prior year's RAF reconciliation adjustment. This amount is then divided by the Company's forecast of total firm throughput volumes for the upcoming year.

The Deferred Tax Benefit is calculated by applying the Effective Tax Rate to the Company's Unamortized Environmental Response Costs to arrive at the deferred tax. The deferred tax is then multiplied by the Tax Adjusted Cost of Capital to arrive at the Deferred Tax Benefit.

The RAF shall be calculated according to the following formula:

$$\text{RAF} = \frac{\text{Sum}(\text{ERC}/7) - \text{DTB} + ((\text{IE} - \text{IR}) * 0.5) + \text{Rrac}}{\text{T:Thru}}$$

where:

$$\text{DTB} = \text{UERC} * \text{TR} * (\text{CD} + (\text{CE}/(1-\text{TR})))$$

9.3 Transition Cost Factor

The TCF shall be calculated according to the following formula:

$$\text{TCF} = \frac{\text{TC} + \text{TCR}}{\text{T:Thru}} + \text{TCWC}$$

where:

$$\text{TCWC} = \frac{\text{TCWCreq} * (\text{CD} + (\text{CE}/(1-\text{TR}))) + \text{TCWCR}}{\text{T:Thru}}$$

$$\text{TCWCreq} = \text{TC} * (\text{DL}/365)$$

9.4 Unbundling Charge Factor

The UCF shall be calculated according to the following formula:

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$$UCF = \frac{UC + UCR}{T : Thru} + UCWC$$

where:

$$UCWC = \frac{UCWC_{req} * (CD + (CE/(1-TR)))) + UCWCR}{T : Thru}$$

$$UCWC_{req} = UC * (DL/365)$$

9.5 Residential Assistance Adjustment Factor

See M.D.T.E. No. 103

9.6 Balancing Penalty Credit Factor

The BPC shall be calculated according to the following formula:

$$BPC = \frac{BP}{T : Thru}$$

9.7 Annual Non-Core Distribution Credit Factor

The NCC shall be calculated according to the following formula:

$$NCC = \frac{NCM}{T : Thru}$$

10.0 RECONCILIATION ADJUSTMENTS

10.1 Environmental Response Cost

(a) Remediation Adjustment Clause expenses allowable per the RAF formula:

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- i. One-seventh of each calendar year's Environmental Response Cost less the Deferred Tax Benefit.
- ii. One-half of the Insurance/Third-Party Expense, less one-half of the Insurance/Third-Party Expense.
- (b) The RAF portion of the LDAF will be used as the convention for recognizing revenue toward the Environmental Response Cost.
- (c) Account 176.3 shall contain the accumulated difference between the Environmental Response Cost allowable per the RAF formula and the revenue toward Environmental Response Cost as calculated by multiplying the RAF times firm throughput volumes.
- (d) The RAF Reconciliation Adjustment shall be taken as the Account 176.3 balance as of October 31st of each year.

10.2 Transition Costs

- (a) FERC 636 Transition Costs other than FERC Account No. 191 costs allowable per the TCF formula:
 - i. Gas Supply Realignment costs ("GSR costs")
 - ii. Asset costs not directly assignable to Customers of unbundled services ("Stranded Costs").
 - iii. Other costs associated with the implementation of Order No. 636 ("New Facility Costs").
- (b) The TCF portion of the LDAF will be used as the convention for recognizing revenue toward the Transition Costs.
- (c) Account 176.60 shall contain the accumulated difference between the Transition Costs allowable per the TCF formula and the revenue toward Transition Costs as calculated by multiplying the TCF times firm throughput volumes.
- (d) The TCF Reconciliation Adjustment shall be taken as the Account 176.60 balance as of October 31st of each year.

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10.3 Unbundling Costs

- (a) Unbundling Costs allowable per the UCF formula:

Costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative.

- (b) The UCF portion of the LDAF will be used as the convention for recognizing revenue toward the Unbundling Costs.
- (c) Account 176.80 shall contain the accumulated difference between the Unbundling Costs allowable per the UCF formula and the revenue toward Unbundling Costs as calculated by multiplying the UCF times firm throughput volumes.
- (d) The UCF Reconciliation Adjustment shall be taken as the Account 176.80 balance as of October 31st of each year.

10.4 Working Capital Costs

- (a) Working Capital Costs allowable per the TCF formula:

FERC 636 Transition Costs Other than FERC Account No. 191 costs.

- (b) Account 176.70 shall contain the accumulated difference between the Transition Cost Working Capital Allowance and the revenue toward the Transition Cost Working Capital Allowance.
- (c) The Transition Cost Working Capital Reconciliation Adjustment shall be taken as the Account 176.70 balance as of October 31st of each year.
- (d) Working Capital Costs allowable per the UCF formula:
- Costs associated with the Company's participation in the Massachusetts Gas Unbundling Collaborative.
- (e) Account 176.90 shall contain the accumulated difference between the Unbundling Cost Working Capital Allowance and the revenue toward the Unbundling Cost Working Capital Allowance.

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- (f) The Unbundling Cost Working Capital Reconciliation Adjustment shall be taken as the Account 176.90 balance as of October 31st of each year.

11.0 EFFECTIVE DATE OF LOCAL DISTRIBUTION ADJUSTMENT FACTOR

The date on which the annual Local Distribution Adjustment Factors ("LDAF") become effective will November 1st of each year.

12.0 APPLICATION OF LDAF TO BILLS

The LDAF will be applied to the monthly firm distribution volumes for each Customer in a Rate Category. The annual LDAF for each Rate Category shall be calculated to the nearest one one-hundredth of a cent per Therm.

13.0 INFORMATION TO BE FILED WITH THE DEPARTMENT

Information pertaining to the LDAF shall be filed with the Department in accordance with the standardized forms approved by the Department. Required filings include a monthly report which shall be submitted to the Department on the twentieth of each month, and an annual LDAF filing which shall be submitted to the Department at least 45 days before the date on which the new LDAF is to be effective, and an annual RAC filing which shall be submitted at least 90 days before the date on which the new LDAF is to be effective.

Additionally, the Company shall file with the Department a complete list by (sub)account of all local distribution costs claimed as recoverable through the LDAC over the previous year, as included in the annual reconciliation. This information shall be submitted with each annual LDAF filing, along with complete documentation of the reconciliation adjustment calculations.

14.0 OTHER RULES

The Department may, where appropriate, on petition or on its own motion, grant an exception from the provisions of the applicable regulations and this rate schedule, upon such terms that it may determine to be in the public interest.

At any time, the Department may require the Company to file, or the Company may file with the Department, an amended LDAF. Said filing must be submitted at least ten (10) days before the proposed effective date of the amended LDAF.

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The operation of this rate schedule is subject to all powers of suspension and investigation vested in the Department by Chapter 164 of the General Laws of the Commonwealth of Massachusetts.

15.0 **CUSTOMER NOTIFICATION**

The Company will design a notice which explains in simple terms to customers the LDAF, the nature of any change in the LDAF, and the manner in which the LDAF is applied to the bill. The Company will submit this notice for approval at the time of each LDAF filing. Upon approval by the Department, the Company shall immediately distribute these notices to all of its customers either through direct mail or with its bills